



# Earned Value Management Update

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November 9, 2004



# Agenda

- Background
- Proposed Revised Earned Value Management (EVM) Policy
- Government/Industry EVM Working Group



# Background

- Industry concerns communicated in letter to USD(AT&L) (April 2003)
- DoD concerns discussed at executive-level meeting (July 2003)
- Concerns presented to DAEC; action resulted to establish teams to work out the issues and provide periodic status to DAEC (October 2003)
- AT&L/ARA actions to date in response to concerns:
  - Developed proposed revised DoD EVM policy
  - Established Government/Industry EVM Working Group



# Proposed Revised EVM Policy: Summary of Changes

- New dollar thresholds for cost/incentive contracts (no differentiation between RDT&E and Procurement)
- Revise Cost Performance Report (CPR) data item description - rename "Contract" Performance Report
- Eliminate Cost/Schedule Status Report (C/SSR) and CPR-No Criteria
- Expand application of Integrated Master Schedule and link to CPR
- Integrated Baseline Review required when EVM required
- EVM on firm-fixed price contracts is risk-

***Uses risk-based approach, drives consistency, and streamlines reporting...may ultimately reduce costs***





# Proposed Revised EVM Policy: New Application Thresholds

## Contracts Thresholds

## Requirements

Cost or Incentive Equal to Or Above Threshold	$\geq \$50M$	<ul style="list-style-type: none"><li>- Compliance with industry EVM standard</li><li>- <u>Formal validation of contractor's EVM system</u></li><li>- Contract Performance Report</li><li>- Integrated Master Schedule</li><li>- Integrated Baseline Review</li></ul>
Cost or Incentive Equal to Or Above Threshold	$\geq \$20M$	<ul style="list-style-type: none"><li>- Ongoing surveillance</li><li>- Compliance with industry EVM standard</li><li>- <u>Formal system validation <b>not</b> required</u></li><li>- Contract Performance Report (tailored)</li><li>- Integrated Master Schedule (tailored)</li><li>- Integrated Baseline Review (tailored)</li><li>- Ongoing surveillance</li></ul>
Cost or Incentive Less Than Threshold Plus All FFP	$< \$20M$	<ul style="list-style-type: none"><li>- EVM optional (risk-based decision)</li><li>- Ongoing surveillance</li></ul>



# Proposed Revised EVM Policy: Status Overview

- Much activity has been completed or is underway
- Next Steps:
  - Finalize proposed policy changes after completion of formal coordination within DoD
  - Obtain USD(AT&L) approval of revised policy
    - Issue interim policy memorandum; revise DoD Instruction 5000.2 during next update cycle
    - Publish new data item descriptions (CPR and IMS)
    - Revise Defense Acquisition Guidebook
    - Revise/publish new DFARS clauses (consider EVMS FAR clause)
    - Publish new Earned Value Management Implementation Guide
    - Develop common DoD IBR Handbook to supplement IBR Guide (if deemed appropriate/necessary)
- Working towards January 1, 2005, effective date (contingent upon all pertinent documents being updated/ approved/published); changes not retroactive



# Government/Industry EVM Working Group

- Established in response to DAEC tasking
- Working-level forum to “assess EVM and broader program management issues and concerns by sharing improvement ideas and recommending solutions, capitalizing on existing industry practices”
- Standing body that meets at least quarterly or as required
- Membership includes representatives from OSD, military services, defense agencies, NDIA, and large defense contractors
- Meetings held on July 13-14 and August 23, 2004:
  - Discussed main issues regarding policy changes
  - Developed draft action plan to address overarching DoD and industry issues
- Next meeting scheduled for November 18, 2004





# Government/Industry EVM Working Group

➤ Overarching DoD and industry issues (in priority order as agreed to by Working Group members):

1. Policy, Validation, and Surveillance
2. Contract Requirements
3. Training
4. Contract Definitization
5. Management Acceptance
6. Process Integrity
7. Subcontractor Management

➤ Next Steps:

- Finalize action plan
- Develop implementation strategy
- Seek approval of near-term improvement actions as necessary
- Assist in implementing improvement actions
- Assess progress and update plan
- Continue to dialogue on concerns, share improvement ideas, and recommend solutions





# Closing Thoughts

- **OSD putting more focus on EVM and plans to stay actively engaged**
- **EVM Working Group active and making progress**



Working together is *the* key to success

A large, faded image of an eagle in flight serves as the background for the central text. The eagle is shown from the side, with its wings fully extended, flying towards the right. The image is semi-transparent, allowing the text to be clearly visible over it.

# **Back-Up Slides**



# Tailoring Guidance

- Guidance for tailoring CPR and IMS for cost or incentive contracts  $< \$50\text{M}$  but  $\geq \$20\text{M}$
- Considerations when making a risk-based decision to require EVM on cost or incentive contracts  $< \$20\text{M}$ ; guidance for tailoring reporting
- Considerations when making a risk-based decision to require EVM on FFP contracts; guidance for tailoring reporting
- Will reside in Defense Acquisition Guidebook and/or Earned Value Management Implementation Guide



# Business Case

- Used contracts data supplied by DoD and industry; applied proposed new EVM application thresholds
  - Increase in lower threshold from \$6.3M to \$20M results in decrease in number of contracts requiring EVM (DoD data = 2,156; industry data = 1,297)
  - Decrease in upper threshold from \$315M/\$73M to \$50M results in increase in number of contracts requiring a CPR and validated EVM system (DoD data = 535; industry data = 261)
- Used incremental cost algorithm to establish equivalency between difference in level of effort for CPR, tailored CPR (replacement for C/SSR), and C/SSR ( $C/SSR = 0.33 \text{ CPR}$ ;  $TCPR = 1.1 \text{ C/SSR}$ )
  - DoD data - eliminate CPRs on 326 contracts
  - Industry data - eliminate CPRs on 235 contracts
- Conclusion: New policy will result in relatively significant cost avoidance; cost of eliminating C/SSRs more than offsets cost of additional CPRs





# Current EVM Policy

- **DoD Directive 5000.1**, The Defense Acquisition System, May 12, 2003 – EVM is not addressed
- **DoD Instruction 5000.2**, Operation of the Defense Acquisition System, May 12, 2003 – EVM is a Regulatory Information Requirement (Table E3.T2)
  - Implement EVM guidelines in ANSI/EIA-748 on contracts/agreements over designated dollar thresholds (RDT&E – over \$73M, Procurement – over \$315M)
  - Conduct Integrated Baseline Reviews (IBRs)



# Current EVM Guidance

- **DoD Regulation 5000.2-R**, Mandatory Procedures for MDAPs and MAIS Acquisition Programs, April 5, 2002
  - Canceled as a “regulation” - remains in effect as an “interim guidebook” (dated October 30, 2002) until replaced
  - Not mandatory, but should be used for best practices, lessons learned, and expectations
- **Defense Acquisition Guidebook**
  - Under development—EVM Chapter 11
  - Updating/revising EVM contents (will incorporate new guidance after policy changes are approved)
- **Program Managers’ Guide to the Integrated Baseline Review Process**



# Government/Industry EVM Collaboration Framework

